CHINA BATTERY

Trends, takeaways and views post 1H26/2Q26 results; CATL remains our top Buy

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Drawing on 1H26/2Q26 results calls, recent corporate access, and our conversations across the supply chain, we address four questions that will shape the sector through 2H26 and into 2027: where demand growth is concentrated, how margins are evolving, how far order visibility extends, and how policy and capacity controls could reshape the supply outlook.

- **Demand — overseas ESS drives the divergence:** Overseas ESS exposure was the clearest driver of outperformance, while EV battery growth relied mainly on exports, pack upsizing, and customer-share gains.
- **Margins — early sequential improvement, with pass-through still key:** Margins improved sequentially but remained lower yoy. The pace of further recovery depends on raw-material, consumption-tax, and export-rebate pass-through.
- **Outlook — ESS visibility now extends into 2027:** Several players already have orders through 1Q27, and management commentary points to 40-50% ESS demand growth next year.
- **Policy and capacity — tighter controls reset the supply path:** Near-term tax pass-through will be a key determinant of the pace of margin recovery, while suspended capacity approvals and the shift to large-format ESS cells will shape supply and profitability into 2027-28. Overall, we believe these changes are supportive of industry consolidation.

Earnings, valuation, and ratings: We lower our 2027-28E EPS forecasts for Tier-2/3 battery manufacturers on more conservative margin assumptions, while 2026E changes are modest except for an upward revision to Gotion on one-off investment gains. We cut our 12-month target prices by 8-31% on these earnings revisions and lower target multiples, partly offset by rolling forward the valuation base year to 2027E, and maintain our ratings.

Stock recommendations: CATL-A/H remains our top Buy across our China battery coverage with high market cap. We also maintain a Buy rating on Zenergy, whose valuation we view as compelling relative to its growth outlook. We retain our Sell ratings on Gotion and Farasis, and Neutral ratings on EVE, CALB, and REPT.

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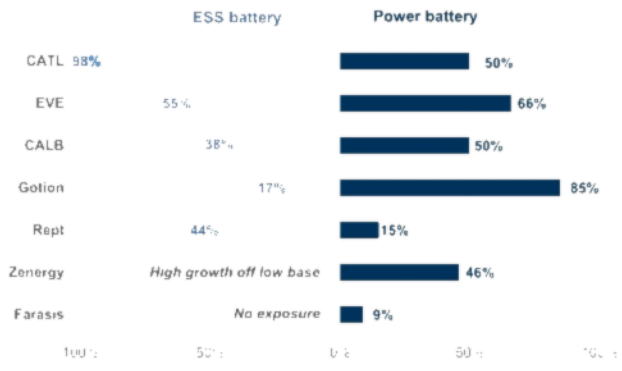
Key trends and takeaways from the 1H/2Q26

Demand: Growth diverges by end-market mix

Most battery companies achieved record-high revenue and shipment volumes in 1H26/2Q26, supported by strength across both EV and ESS. The ESS demand surge was most visible in top-tier players' shipment performance: CATL nearly doubled its ESS battery sales volume in 1H26 on yoy basis. For smaller battery producers, EV batteries remained the primary growth driver in 1H26 on share gains.

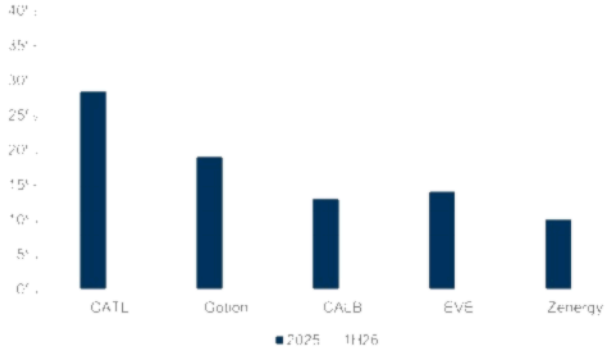
Despite its already leading scale, CATL still grew power battery sales volume by 50% yoy, with incremental volume of 109GWh, a level close to the combined 1H26 sales volume of the Tier-2/3 players under our coverage.

Exhibit 1: Power battery remained the key growth driver for most battery companies in 1H26...
1H26 shipment % yoy growth by power battery and ESS battery across our covered battery companies



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: ...with overseas demand as the key growth engine
Power battery overseas exposure (direct + indirect exports) across key battery players



Source: SNE Research

EV batteries: Exports and pack upsizing drive growth

- **Exports were the key growth driver for passenger vehicle batteries in 1H26.** Direct exports benefited from new model launches by overseas OEMs such as Volkswagen, supporting producers such as Gotion, whose battery exports more than doubled yoy. Indirect exports also rose meaningfully as Chinese automakers accelerated overseas expansion (NEV export volume +138% yoy in 1H26; see our China auto team's tracker here), lifting most battery makers' indirect-export volume contribution by over 10ppt.
- **Domestic passenger vehicle battery demand was resilient despite softer vehicle sales** (down -14% yoy in 1H26), supported by battery pack upsizing trends (up +17% on average vs. the 2025 level). Most players delivered solid domestic shipment growth except for CALB, which lost domestic market share in 1H26; some smaller players, such as Zenergy, achieved 30%+ yoy growth in domestic sales, helped by share gains and broader customer coverage.
- **Commercial vehicle battery demand continued to grow rapidly** as electrification accelerated (eHDT penetration rose to 35% in 1H26 from 28% in 2025), with battery installation volume up 91% yoy. However, some producers underperformed the

industry due to share shifts or capacity reallocation toward ESS.

ESS batteries: Overseas exposure drives outperformance

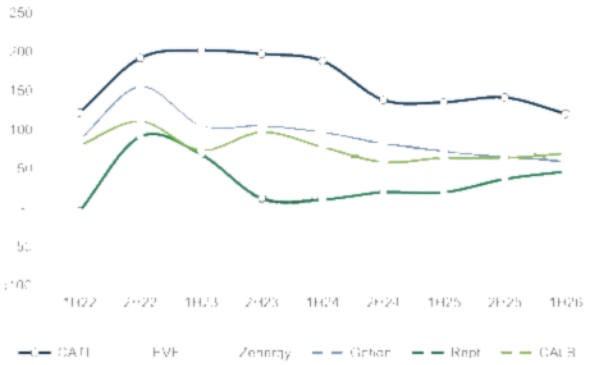
- Growth varied by vertical and regional exposure. **Companies with larger direct or indirect overseas ESS exposure**, such as REPT and CALB, **delivered strong mid-to-high double-digit revenue growth.** CATL indicated that overseas ESS order growth has outpaced domestic orders, with emerging markets growing faster than mature markets.
  - SNE Research data also confirmed stronger overseas ESS growth (+93% yoy vs. +49% yoy for the China ESS battery market): shipments to Europe and the US grew 70-80% yoy, while shipments to EMs such as the Middle East, Oceania, and Southeast Asia more than doubled yoy.
  - **By vertical,** SNE Research data indicated that global residential ESS shipments more than doubled yoy in 1H26, while commercial and industrial (C&I) and utility-scale ESS shipments also grew strongly at 50-60% yoy.
- By contrast, **companies with higher domestic exposure showed more mixed performance:** those supplying integrators grew strongly (e.g., EVE), while players with greater direct exposure to domestic utility-scale projects lagged the industry (e.g., Gotion), which management attributed to selectively giving up low-margin orders.
- On **the growing gap between China ESS tendering/contracting volume and installation volume**, companies directly involved in domestic project bidding and operation noted that grid connection (the point at which installation data will show) is typically back-end loaded toward year-end, making a mismatch between tender volume and installation volumes normal.

Margins: Sequentially better, still pressured yoy

Most battery makers saw GPM improve qoq/hoh but remain under yoy pressure in 2Q26/1H26. Excluding the cost of new capacity ramp-up, the yoy decline mainly reflected delayed raw-material cost pass-through and lower export rebates. Companies generally characterized 1H26 as a price negotiation period, with key metal price-linkage mechanisms largely finalized by end-2Q26. Looking ahead, most expect margins to improve sequentially in 3Q26/2H26, subject to successful pass-through of the battery consumption tax.

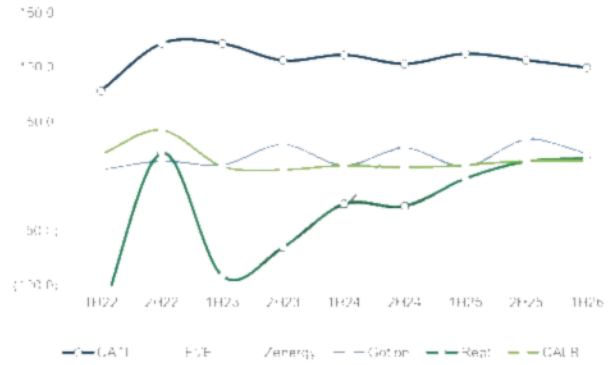
Trends and management comments from Tier-2 players suggest CATL's sequential margin compression was more likely driven by mix effects—such as higher domestic exposure and a higher cell mix vs. systems in ESS—than by weaker pricing power.

Exhibit 3: Most Tier-2 players have seen sequential improvement in unit GP in 1H26
Unit GP trend for battery OEMs under our coverage (1H22-1H26, Rmb/kWh)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: ...as well as unit net profit
Unit NP trend for battery OEMs under our coverage (1H22-1H26, Rmb/kWh)



Source: Company data, Goldman Sachs Global Investment Research

Outlook: Demand visibility strengthens into 2027

Most companies had not brought major new capacity online in 1H26, with utilization rates generally averaging 80-90%. Entering the traditional peak season from 3Q26, supported by new capacity ramp-up, planned production at most battery makers (tracked by ICCSino) points to around 50% yoy growth and over 20% qoq expansion. All companies reiterated their full-year shipment guidance.

ESS outlook: Customer signals remain constructive

- **ESS demand visibility is extending into 2027,** with several battery makers already seeing orders stretch into 1Q27. Based on customer feedback, most companies expect demand to sustain strong growth next year, with some pointing to 40-50% growth potential and leading integrator customers requesting dedicated production lines.
- ESS-heavy companies such as CATL, EVE, and REPT are also **increasing system exposure.** EVE aims to lift its system mix from around 10% to 20-30%, while REPT expects systems to account for nearly 15% this year and to rise further next year. Compared with cells, systems offer 20-30% higher value and around 5-10ppt higher GPM.
- ESS integrators noted that **the VAT rebate phase-out for battery exports** will be reflected directly in product prices, while channel pre-stocking covers only around half a month to one month of demand and should not trigger a large-scale pull-forward.
- By vertical, companies with high **residential and C&I** exposure, such as REPT and Great Power, expect demand strength to continue into 2027. Residential storage integrators expect Europe to remain the core growth market, driven by improving project economics rather than subsidies, while orders from Southeast Asia, Latin America, and the Middle East are also improving.

EV outlook: Exports set up the next volume ramp

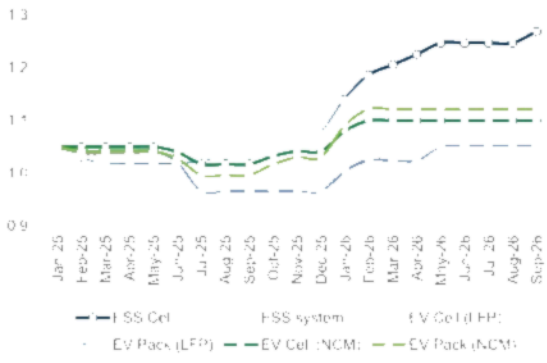
- **Direct exports:** 2027 is poised to be the first meaningful EV volume ramp-up year for many overseas OEMs. This supports stronger growth expectations for Tier-2 battery makers such as EVE Energy, a major BMW supplier, and Gotion High-Tech, a major Volkswagen supplier, with some players targeting a 40-50% overseas sales mix.
- **Indirect exports:** Tier-2 suppliers are broadly confident in volume growth, supported by accelerating overseas electrification and share gains with Chinese automakers.
- **Domestic market:** Tier-2 battery makers expect incremental volume upside from new model launches and customer wins.

Exhibit 5: Battery producers continue to run at full capacity into 3Q26
Battery companies' monthly utilization trends



Source: ICCSINO

Exhibit 6: YTD cost inflation pass-through appears smoother in ESS than in EV batteries
PB and ESS battery price index (Jan 25 price = 1.0)



Source: ICCSINO

Policy: Tax pass-through becomes the next margin test

- **Most battery makers have raised sales prices since September to pass through the bulk of the consumption tax.** However, full pass-through will likely take time, leaving 3Q26 margins exposed to a timing mismatch. Some companies indicated the worst-case acceptable outcome would be passing through only around half of the tax.
- For exports, direct shipments are tax-exempt, while indirect exports may require battery makers to pay the tax upfront before being reimbursed by EV exporters. This will likely require further customer negotiations on working capital and pricing arrangements. For ESS systems, DC blocks are subject to the consumption tax based on cell value.
- On the **VAT rebate phase-out for battery exports**, CATL noted that the policy is being implemented in phases and that it is negotiating sharing mech customers on a step-by-step basis. Gotion indicated most of the im passed on, with customers bearing over 70% to 80% and the compa less than 30%. We note that companies with heavier consumer-batt faced greater margin pressure in 1H26 due to weaker pricing power

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Capacity: Approval controls reset the supply path

- **Battery makers indicated that industry-wide capacity controls have now taken effect, with approvals for new capacity effectively suspended since June.** Several companies noted that regulators have adopted a "whitelist" approach, allowing only approved manufacturers to expand capacity. ESS appears to be a key focus of regulation, with the overarching aim of curbing irrational price competition.
- Against this backdrop, **several Tier-2 battery makers are accelerating planned additions** and expect to complete most of their announced expansion projects by end-2027.
- **Large-format ESS cells** are emerging as the industry's key growth focus for 2027-28, with most producers no longer expanding 314Ah capacity. The shift is largely customer-driven, with 588Ah, 648Ah, 684Ah and larger-format cells expected to be commercialized from 2H26 through 2027. While early ramp-up may pressure costs and margins due to yield challenges, companies expect larger-format cells to deliver better profitability over time.

Earnings revisions and valuation

Earnings revisions

Following the 1H26/2Q26 results, we revise earnings across our China battery coverage. We lower our 2027-28E EPS forecasts across Tier-2/3 battery manufacturers, primarily reflecting more conservative margin assumptions due to: 1) ramp-up costs as new capacity comes online in 2027-28; 2) an adverse mix shift for select companies as lower-margin domestic business rises as a share of revenue; and 3) limited pricing power in select products, particularly consumer batteries, where margins were affected by the phase-out of VAT rebates on battery exports. Our 2026E forecast changes are relatively modest (note the steeper earnings revisions for Farasis and Zenergy are due to their relatively lower margins and hence higher sensitivity to the margin assumption changes), except for an upward revision to Gotion to reflect one-off investment gains.

Valuation

We lower our 12-month target prices by 8-31%, reflecting both these earnings revisions and lower target EV/EBITDA multiples to account for slower growth from 2027 to 2028, partly offset by rolling forward our valuation base year from the average of 2026E-27E to 2027E. We maintain our ratings.

Exhibit 7: Summary of key changes to earnings estimates and 12-month target prices

	Valuation multiple	Target Price	Revenue			Net profit			EPS		
			2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Zenergy (3677.HK)			mn Rmb			mn Rmb			Rmb		
GSe (New)	9.0x 2027E EV/EBITDA	**HKD 9.0**	**14,968**	**25,106**	**33,427**	**869**	**1,594**	**2,361**	**0.34**	**0.62**	**0.92**
GSe (Old)	11.0x average 2026E, 27E EV/EBITDA	HKD 13.0	14,927	24,856	32,944	1,116	1,889	2,751	0.44	0.74	1.08
% chg		-31%	0%	1%	1%	-22%	-16%	-14%	-22%	-16%	-14%
Wind Consensus			13,735	20,774	26,981	1,143	1,713	2,387	0.45	0.67	0.93
% diff			9%	21%	24%	-24%	-7%	-1%	-24%	-7%	-1%
EVE (300014.SZ)			Rmb mn			Rmb mn					
Gse (New)	11.0x 2027E EV/EBITDA	**RMB 59.0**	**88,091**	**109,822**	**109,416**	**6,519**	**7,783**	**8,100**	**3.00**	**3.58**	**3.73**
Gse (Old)	13.0x average 2026E-27E EV/EBITDA	RMB 68.0	92,172	107,144	106,238	6,517	8,108	8,582	3.00	3.73	3.95
% chg		-13%	-4%	2%	3%	0%	-4%	-6%	0%	-4%	-6%
Wind Consensus			103,174	138,421	169,169	7,151	9,760	12,051	3.29	4.49	5.54
% diff			-15%	-21%	-35%	-9%	-20%	-33%	-9%	-20%	-33%
CALB (3931.HK)			mn Rmb			mn Rmb			Rmb		
GSe (New)	10.0x 2027E EV/EBITDA	**HKD 24.0**	**66,387**	**87,869**	**87,961**	**2,375**	**3,250**	**3,160**	**1.34**	**1.83**	**1.78**
GSe (Old)	10.5x average 2026E-27E EV/EBITDA	HKD 27.0	68,552	85,683	87,426	2,656	3,638	3,777	1.50	2.05	2.13
% chg		-11%	-3%	3%	1%	-11%	-11%	-16%	-11%	-11%	-16%
Wind Consensus			72,669	102,048	125,738	2,706	4,147	5,359	1.53	2.34	3.02
% diff			-9%	-14%	-30%	-12%	-22%	-41%	-12%	-22%	-41%
Rept (0666.HK)			mn Rmb			mn Rmb			Rmb		
GSe (New)	8.0x 2027E EV/EBITDA	**HKD 10.0**	**36,206**	**41,781**	**39,583**	**1,217**	**1,306**	**1,082**	**0.52**	**0.56**	**0.46**
GSe (Old)	10.5x average 2026E-27E EV/EBITDA	HKD 14.0	32,551	37,622	35,887	1,200	1,472	1,394	0.51	0.63	0.60
% chg		-29%	11%	11%	10%	1%	-11%	-22%	1%	-11%	-22%
Wind Consensus			34,697	43,290	49,846	1,598	2,526	3,266	0.68	1.08	1.40
% diff			4%	-3%	-21%	-24%	-48%	-67%	-24%	-48%	-67%
Gotion High-Tech Co. (002074.SZ)			Rmb mn			Rmb mn			Rmb		
GSe (New)	11.0x 2027E EV/EBITDA	**RMB 22.0**	**58,146**	**68,680**	**73,372**	**1,285**	**1,299**	**1,265**	**0.71**	**0.72**	**0.70**
GSe (Old)	12.0x average 2026E-27E EV/EBITDA	RMB 24.0	62,049	74,231	76,223	911	1,900	1,473	0.50	1.05	0.81
% chg		-8%	-6%	-7%	-4%	41%	-32%	-14%	41%	-32%	-14%
Wind Consensus			65,347	83,340	100,787	1,892	2,690	3,522	1.04	1.48	1.94
% diff			-11%	-18%	-27%	-38%	-52%	-64%	-38%	-52%	-64%
Farasis (688567.SH)											
GSe (New)	20.0x 2027E EV/EBITDA	**RMB 7.0**	**9,899**	**11,489**	**13,152**	**-613**	**-449**	**-298**	**-0.50**	**-0.37**	**-0.24**
GSe (Old)	18.0x average 2026E-27E EV/EBITDA	RMB 8.0	9,052	9,704	10,419	-325	-224	-238	-0.27	-0.18	-0.20
% chg		-13%	9%	18%	26%	-89%	-100%	-25%	-89%	-100%	-25%

Target prices are in local currency and on a 12-month basis; no Wind consensus data available for Farasis.

Source: Company data, Goldman Sachs Global Investment Research, Wind

Exhibit 8: Global battery sector comp table

Ticker	Company	Rating	Pricing Currency	Target price (local ccy)	as of 24/09/2026 Share price (local ccy)	Upside/ (downside)	3M avg trading volume (mn USD)	Market cap (bn USD)	EBITDA yoy %chg 2026	2027	2028	2025-2027 EBITDA CAGR	ROE (%) 2025	2027	2028	EV/EBITDA (x) 2026	2027	2028	PE (x) 2026	2027	2028	EBITDAM (%) 2026	2027	2028
Battery makers																								
China players																								
300750.SZ	CATL-A	Buy	CNY	565.0	293.5	93%	1,744.8	209.1	36%	24%	16%	30%	23%	24%	25%	8.2	6.3	4.9	14.5	11.9	10.2	22.8%	23.8%	25.0%
3750.HK	CATL-H	Buy	HKD	947.0	492.8	92%	198.8	300.5	36%	24%	16%	30%	23%	24%	25%	12.6	9.9	8.0	20.9	17.0	14.6	22.8%	23.8%	25.0%
3677.HK	Jiangsu Zenergy	Buy	HKD	9.0	4.5	102%	1.4	1.5	73%	64%	33%	69%	10%	16%	20%	7.8	5.3	3.3	11.2	6.1	4.1	12.8%	12.5%	12.5%
1931.HK	CALB	Neutral	HKD	24.0	17.7	36%	10.6	4.0	38%	26%	4%	32%	6%	8%	7%	10.7	8.2	8.7	11.3	8.2	8.5	16.5%	15.7%	16.3%
300014.SZ	EVE Energy	Neutral	CNY	59.0	48.9	21%	352.2	15.8	40%	18%	8%	29%	12%	13%	12%	12.1	10.5	9.9	16.3	13.7	13.1	12.5%	17.9%	12.9%
0666.HK	REPT BATTERO Energy	Neutral	HKD	10.0	8.7	14%	3.5	2.6	59%	26%	8%	41%	10%	9%	7%	7.4	7.0	6.9	14.4	13.4	16.2	10.5%	11.5%	13.1%
002074.SZ	Gotion	Sell	CNY	22.0	26.8	18%	109.1	7.2	14%	11%	15%	13%	2%	2%	2%	12.1	12.0	10.9	37.7	37.3	38.3	14.2%	13.3%	14.4%
688567.SS	Farasis Energy	Sell	CNY	7.0	8.9	-21%	15.7	1.6	27%	41%	25%	34%	-8%	-7%	-5%	17.8	12.4	9.4	N.M	N.M	N.M	5.2%	8.3%	6.8%
Overseas players																								
373220.KS	LG Energy	Buy	KRW	523,000	351,500	48%	81.5	60.6	8%	57%	46%	30%	1%	9%	19%	20.5	13.0	8.7	N.M	41.7	18.2	19.1%	21.7%	24.7%
006400.KS	Samsung SDI	Neutral	KRW	695,000	521,000	33%	151.3	25.7	541%	92%	34%	251%	2%	8%	11%	20.2	10.4	7.5	99.7	22.1	14.7	15.5%	19.4%	19.6%
096770.KS	SK Innovation	Neutral	KRW	140,000	149,200	6%	81.9	10.1	243%	42%	2%	42%	24%	7%	7%	4.8	7.2	7.2	4.5	11.4	11.6	13.6%	9.9%	10.7%
Battery makers average									**152%**	**33%**	**21%**	**71%**	**9%**	**10%**	**12%**	**13.1**	**9.7**	**7.8**	**35.1**	**20.2**	**14.9**	**15.4%**	**15.9%**	**17.1%**
China players									40%	29%	16%	35%	12%	11%	11%	11.1	9.1	7.7	18.0	15.4	15.0	14.7%	14.8%	15.6%
Overseas players									264%	38%	27%	107%	8%	8%	12%	15.2	10.4	7.8	52.1	25.1	14.8	16.1%	17.0%	18.4%

Source: Refinitiv Eikon, Company data, Goldman Sachs Global Investment Research

Investment Thesis, Price Target Risks and Methodology

Investment Thesis - CATL

CATL is the world's largest battery manufacturer, underpinned by leading scale, battery technology, and cost competitiveness. Its EV battery business remains a solid earnings anchor, supported by structurally expanding demand and a more resilient market-share trajectory following its recent share recovery. More importantly, CATL's transition from cells to integrated energy solutions, supported by its battery expertise and strategic ecosystem build-out, should drive the next phase of value creation, as battery energy storage systems (BESS) integration enables share consolidation, higher project value capture, recurring service revenue, stronger margins, and a potential valuation re-rating.

Price Target Risks and Methodology - CATL

Valuation methodology: We apply a sum-of-the-parts framework to reflect CATL's distinct power battery and BESS growth profiles, BESS-led rerating potential, and ecosystem investments. For CATL-A, we value power batteries at 11x 2026-27E EBITDA and BESS using a discounted 2030E EV/EBITDA approach with an 18x exit multiple. For CATL-H, we use a global framework, valuing power batteries at 20x 2030E EV/EBITDA and BESS at a 25x 2030E exit multiple, reflecting CATL's superior ROIC, global leadership, and scarcity value. This yields 12-month TPs of HK$947/Rmb565 and implies a 54% H-share premium versus A-shares.

Key risks: 1) slower-than-expected global EV demand growth; 2) weaker-than-expected global ESS demand growth; 3) an unexpected rise in raw material costs, mainly battery metals; 4) slower-than-expected progress in BESS integration; 5) execution and trade-policy risks in overseas expansion; 6) more intense-than-expected competition in power and ESS batteries.

Investment Thesis - Zenergy

We view Zenergy as an underappreciated high-growth EV battery platform with improving competitive positioning, solid manufacturing discipline, and a more favorable growth-return balance than most Tier-2/3 peers. Although founded only in 2019, Zenergy benefits from auto-component know-how inherited from Fuyao Glass, where its founding team originated, which has helped it scale quickly while maintaining solid returns. As one of the few smaller players gaining share in China's consolidating battery market, Zenergy should benefit from continued EV customer diversification, rising utilization, and early expansion into ESS, supporting the fastest EBITDA growth in our coverage universe. Despite this, the stock trades at a significant discount to peers, creating an attractive risk-reward. We are Buy-rated on the stock.

Price Target Risks and Methodology - Zenergy

Valuation methodology: We value Zenergy using a sum-of-the-parts methodology, applying a 9.0x EV/EBITDA multiple to 2027E EBITDA for the core business, consistent with the average level since listing but slightly below the historical mid-cycle average of H-share peers CALB and REPT to reflect its scale, balanced by growth. We value its long-term equity investment, mainly the Toyota battery pack JV, at book value.

Key risks: 1) slower-than-expected China EV demand; 2) milder-than-expected ESS demand; 3) upstream raw material cost volatility; 4) intensifying competition in the domestic power battery market; 5) softer-than-expected execution and capacity ramp-up in the ESS segment.

Investment Thesis - Farasis

Backed by the Guangzhou local government, Farasis is a niche EV battery supplier with an export-heavy revenue mix, significant exposure to pouch NCM batteries and a highly concentrated customer base anchored by Mercedes-Benz and Togg. Its push into lithium iron phosphate (LFP) could broaden its addressable market beyond premium EV batteries, but its ability to build a sustainable customer base in the more competitive mass-market segment has yet to be demonstrated. We expect improving utilization and limited future capex to support gradual margin recovery and a return to EBITDA growth; however, Farasis is likely to remain loss-making at the net level without a significant new customer win, as its current scale is insufficient to absorb elevated D&A. Against this outlook, we view the current valuation as demanding and rate the shares Sell.

Price target methodology and risks - Farasis Energy

Valuation methodology: Our 12-month target price of Rmb7.0 is based on an EV/EBITDA methodology. We value Farasis at 20.0x 2027E EV/EBITDA, which aligns with its historical three-year average multiple.

Key risks: 1) stronger-than-expected global EV demand; 2) higher-than-expected premium EV model penetration; 3) faster-than-expected market share gains in the domestic passenger vehicle segment: 4) stronger-than-expected customer acquisition in overseas markets; 5) successful expansion into the ESS market; and 6) successful commercialization of solid-state battery technology.

Investment Thesis - Gotion

Gotion has maintained a stable No.4 position in China's domestic EV battery market by installation volume, while its strategic partnership with Volkswagen provides potential overseas growth optionality. However, we see the stock as more vulnerable in the current environment given its heavier exposure to price-sensitive economy passenger vehicle models, a relatively concentrated customer base and weaker EV battery unit profitability versus peers. Raw material cost sensitivity, rising leverage and below-WACC ROIC further constrain the re-rating case, making its above-peer valuation multiple difficult to justify. We rate the shares Sell.

Price Target Risks and Methodology - Gotion

Valuation methodology: Our 12-month target price of Rmb22.0 is based on an EV/EBITDA methodology. We value Gotion at 11.0x 2027E EV/EBITDA, 1SD below its five-year average, reflecting a slower growth profile ahead.

Key risks: 1) stronger-than-expected global EV demand; 2) stronger-than-expected global ESS demand; 3) sharper-than-expected decline in raw material costs; 4) faster-than-expected domestic EV market share expansion; 5) accelerated overseas business development.

Investment Thesis - EVE Energy

EVE is China's third-largest battery producer by 2025 shipments, with a distinctive end-market mix: a global top-three consumer battery franchise, No.2 positions in ESS and commercial vehicles, and credible OEM relationships in passenger vehicles despite a smaller presence. This portfolio, combined with aggressive capacity expansion, should drive a step-up in EBITDA growth over 2026E-27E as EVE captures strong ESS demand and faster commercial vehicle electrification. The consumer battery business provides a cash-flow and profitability anchor, supporting above-WACC returns and lower gearing than Tier-2 peers. However, rising ESS competition and a less favorable supply-demand balance after 2027E could pressure margins, leaving the stock fairly valued and supporting our Neutral rating.

Price Target Risks and Methodology - EVE

Valuation methodology: Our 12-month target price of Rmb59.0 is based on a sum-of-the-parts methodology. We value EVE's core operations at 11.0x 2027E EV/EBITDA, 1SD below its 10-year average trading multiple (given slower growth prospects vs. history), and incorporate its long-term equity investments at book value.

Key risks: 1) faster/slower-than-expected global EV, ESS, and consumer battery demand; 2) raw material cost volatility; 3) market share shifts and pricing competition in ESS and commercial vehicle batteries; 4) execution risks around overseas expansion; and 5) faster/slower-than-expected adoption of large cylindrical batteries.

Investment Thesis - CALB

CALB is China's fourth-largest battery producer by 2025 shipments. It offers scale and customer diversification in China's EV battery market, supported by its No.3 domestic installation share, broadening OEM base, and rising commercial vehicle exposure. Its aggressive capacity expansion positions the company to capture the industry's ESS-led demand upcycle and deliver strong growth over 2026E-27E, consistent with our broader view on Tier-2 battery players. However, CALB's domestic China skew and still-scaling ESS business leave it more exposed to competition, margin pressure and utilization risk as demand normalizes and new supply comes online. With leverage rising and ROIC likely to remain below WACC during our forecast period, we view the stock as fairly valued and rate it Neutral.

Price Target Risks and Methodology - CALB

Valuation methodology: Our 12-month target price of HK$24.0 is based on an EV/EBITDA methodology. We value CALB at 10.0x 2027E EV/EBITDA, in line with its historical average trading multiple.

Key risks: 1) stronger/weaker-than-expected domestic power battery or ESS market; 2) upstream raw material cost volatility and pass-through lags; 3) more volatile-than-expected market dynamics in the PV battery segment; 4) execution and competition dynamics in commercial vehicle and BESS expansion; 5) litigation risks relating to the patent lawsuits initiated by CATL.

Investment Thesis - REPT

REPT is China's sixth-largest battery manufacturer by 2025 shipments and is backed by Tsingshan Holding Group, the world's largest nickel and stainless steel producer, giving it

a distinctive shareholder background within China's battery value chain. Its business portfolio is primarily focused on ESS and commercial vehicle batteries, while its passenger vehicle exposure remains more limited. We expect capacity expansion, higher utilization and margin catch-up to drive strong EBITDA growth over 2025-27E, as REPT captures robust ESS demand and benefits from improving operating leverage. However, the company's thinner profitability versus peers, high domestic China exposure and ESS concentration leave it more exposed to margin pressure and utilization risk as demand normalizes and industry supply expands. With leverage likely to rise as capex remains elevated and ROIC unlikely to exceed WACC during our forecast period, we see limited scope for valuation re-rating and rate the stock Neutral.

Price Target Risks and Methodology - REPT

Valuation methodology: Our 12-month target price of HK$10.0 is based on an EV/EBITDA methodology. We value REPT at 8.0x 2027E EV/EBITDA, below its historical average trading multiple of 10.8x, reflecting a slower growth profile ahead.

Key risks: 1) stronger- or weaker-than-expected global ESS demand growth; 2) upstream raw material cost volatility and pass-through lags; 3) execution, regulatory and geopolitical risks in overseas expansion; 4) competitive dynamics, pricing pressure and capacity rollouts in the core ESS business.